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## **GETTING YOUR RECORDS READY FOR TAX SEASON**

*by Betty T. Yee*

April 15th --- when your income tax returns must be postmarked to the Internal Revenue Service (IRS) and Franchise Tax Board (FTB) --- is just around the corner. Many taxpayers procrastinate preparing their returns, scrambling last-minute to find records needed to complete their returns.

However, returns filed under these conditions are often inaccurate, forcing the taxpayers to either amend their returns later, lose deductions to which they may be entitled, or find out in an audit they owe more tax plus interest.

Start gathering your records now, and prepare your returns early! This is not as difficult as it might seem.

### **Most of Your Records Should Have Been Mailed to You in January**

By January 31st, you should have received the following records that are most, and maybe all, of what you will need to complete your federal 1040 and California 540 tax returns:

- W-2 statements from employers reporting wage income and federal and state tax withheld
- 1099-MISC statements reporting payments to independent contractors
- 1099-INT statements from financial institutions showing interest income
- 1099-DIV statements from financial institutions or companies showing dividend income
- 1099-B statements from brokerage or mutual fund companies showing capital gains and losses as well as the acquisition cost of mutual fund shares or stock shares
- Form 1099-G postcard from the FTB showing the amount of any state tax refund received
- Form 1099-G showing unemployment compensation received
- Form 1099-R statements showing pension and retirement plan distributions and tax withheld
- Form SSA-1099 showing Social Security benefits received
- Form 1099-MISC showing royalties or rents received
- Form 1098 statements showing mortgage interest paid
- K-1 schedules showing partnership and S corporation income

### **Quickly Gather Any Other Records You Need**

You should also start collecting any copies you have of the following:

- Copies of rent checks showing rental property income, and records of expenses and repairs
- Self-employment expenses and any income not reported to you on a Form 1099
- Divorce or separation papers to substantiate alimony received or paid

- Receipts or acknowledgements for cash and non-cash charitable contributions
- Receipts for medical expenses
- Receipts, cancelled checks, or other substantiation of employee business expenses, investment expenses, professional dues, tax preparation expenses, fees paid for safety deposit boxes, and other miscellaneous deductions
- Social Security numbers for claimed dependents
- Records of estimated tax payments
- Records to substantiate the business use of your home, showing the percentage used as a home office
- Records of casualty losses (insurance claims records) and theft losses (police reports)
- Written acknowledgement of the sales price of any vehicle donated to charity (must be attached to returns). Recent law changes limit the deductible contribution to the sales price collected by the charity selling the donated vehicle.
- Telephone and cell phone bills for the period between 3/1/03 and 7/31/06, if you paid more federal telephone excise tax than the \$30 - \$60 (depending on exemptions) automatically allowed on 2006 federal returns.

### **The California Return Is Based on the Federal Return**

To file your California 540 return, you also need records of interest received on federal government bonds and municipal bonds from other states. California taxable income starts with federal adjusted gross income, with additions for municipal bond interest from states other than California (which the federal government does not tax), and subtractions for federally taxed items California does not tax (interest on federal government obligations, state tax refunds, unemployment compensation, and Social Security payments).

### **The Use Tax Line on the California Return**

The California personal income tax return provides a line to report the amount of purchases of out-of-state merchandise, particularly over the Internet, where the seller does not collect California sales tax because the seller is located outside of the state. Californians should pay the use tax owed on these items directly to the state on their personal income tax return. Therefore, you should collect records of major non-taxed online or out-of-state purchases made in 2006.

### **There Is Still More Time After April 15th**

Since in 2007 April 15<sup>th</sup> falls on a Sunday and April 16<sup>th</sup> is a holiday in the District of Columbia, returns postmarked Tuesday, April 17<sup>th</sup> on or before 11:59 p.m. are timely. If you need an extension, you should file IRS Form 4868 at this time, and you will automatically have until October 15<sup>th</sup> to file both your federal and California returns.

If you file for an extension, any income tax you owe must still be paid on or before April 17<sup>th</sup>, with IRS Form 4868 and FTB Form 3519.

### **Records You Should Keep After Filing Your Returns**

You should keep copies of tax returns for at least four years, along with substantiation of any credits and deductions claimed and copies of W-2 and similar forms.

You should keep records of the cost basis for mutual funds, stocks, and real property until you dispose of them. The same applies for records of improvements to your home and records of improvements, depreciation schedules, repairs, and rents on investment property.

### **Help Is Available**

There are many free resources on the IRS website at [www.irs.gov](http://www.irs.gov) that can assist you with your filing requirements:

- IRS Publication 552, *Recordkeeping for Individuals*
- IRS Publication 583, *Starting A Business And Keeping Records*, if you are or may become a business owner
- IRS Publication 910, *Guide to Free Tax Services*.

In addition, the IRS and the FTB have Taxpayer Assistance programs where you can obtain in-person help:

- Visit [www.irs.gov](http://www.irs.gov) or look in the phone book under “United States Government, Internal Revenue Service” for a listing of Taxpayer Assistance Centers.
- Visit [www.ftb.ca.gov](http://www.ftb.ca.gov) for a listing of approximately 1,800 California locations where trained volunteers provide free help during tax filing season. You can also contact the FTB toll-free at 1-800-852-5711 to find a location near you.

*Betty T. Yee represents the State Board of Equalization, First District, which is comprised of 21 counties in northern and central California. The Board hears and decides income, business, and special tax appeals matters.*